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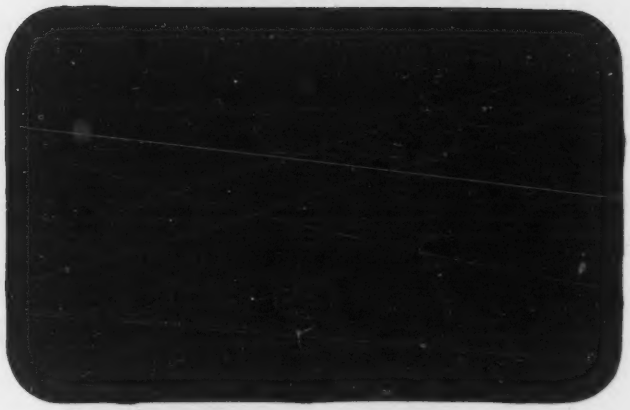

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

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KEDI ECONOMIC SURVEY

November 1, 1985

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SOURCES:

U.S.Department of Commerce first estimates of 1985:3 National Income and Product data, October 18, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, October 1985.

The lastest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Real GNP up 3.3% in 1985:3. **KEDI** forecasts a strong US economy in 1986 with moderate growth continuing into following years.

Prices

Inflation keeps low profile. CPI will be on good behavior all through next year. Do not look for further drops in PPI.

Employment & Labor

372,000 new jobs for September putting the total work force at record 107.5 million.

Housing

Housing starts stop. Off 9.3% from September, October data reflects **KEDI** forecast of many months that construction activity does not reflect consumer demand.

Automobiles

Domestic auto sales drop as incentives expire in October. Japanese automakers grin and sip saki as sales soar.

Budgets

Can the US afford a balanced federal budget? **KEDI** says no! State and local governments must spend more as the federal government digs out of debt.

Income

Average weekly earnings gains continue to outpace increases in CPI while corporate profits turn in a good performance.

Money & Credit

International Group of Five maintains commitment to bring down the dollar's international value. A weakening of the dollar will eventually rectify the balance of trade between the US and the world.

Interest Rates, Yields & Securities Prices

KEDI disagrees with the Fed's policy of pushing interest rates lower through the balance of this year and next.

0.02 OVERVIEW

A NEW LOOK

This month's issue has a new look!

KEDI is constantly striving to bring you meaningful forecasts, so we have changed the layout to reflect current, up-to-date changes occuring in the economy.

By calculating changes from last month's forecast, we will be including percent changes occuring in the 1986 data. Each detailed forecast contains a listing of changes in forecast data from the previous month. These changes are ranked in descending order with the highest positive percentage change at the top of the list in the six categories analyzed on each page. The bottom, or sixth category, reflects the largest negative percentage change of the group with intermediate positive and negative changes ranked in between.

We believe the sensitive changes in these barometers of economic activity are important considerations for planning and decision making activities within subscriber organizations.

Our new look, with state-of-the-art forecasting methods, is another example of **KEDI**s dedication to providing subscribers with pertinent, meaningful data in an easy to understand format.

We welcome your comments.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national product, p.5	bil. 72$	1679.9	1864.3	1925.8	1966.2
	% change	2.5	3.8	3.3	2.1
Index of indust. prod., p.5	1967=100	124.8	144.0	150.4	156.5
	% change	2.5	5.2	4.5	4.0
Capacity utiliz., p.5	%	80.3	83.0	82.1	81.3
	% change	-.6	1.0	-1.1	-1.0
Unemployment rate, p. 5	%	7.2	6.6	6.7	6.8
	% change	-3.6	-4.0	1.0	1.1
Private housing starts, p.5	mil.units	1.689	2.033	1.949	1.910
	% change	-3.4	9.8	-4.1	-2.0
Car sales, p.5	mil.units	10.7	12.2	12.1	12.0
	% change	2.4	10.2	-.7	-.8
Implicit GNP price def., p.9	1972=100	231.1	261.5	275.9	288.0
	% change	3.5	5.1	5.5	4.4
Consumer Price Index, p.9	1967=100	321.9	367.1	388.0	407.4
	% change	3.5	5.4	5.7	5.0
Prod.Price Index (fin.goods),p.9	1967=100	295.1	349.6	371.0	383.2
	% change	1.3	7.1	6.1	3.3
Federal Deficit p. 19	bil. $	-193.2	-149.2	-132.2	-121.7
	% change	9.9	-7.9	-11.4	-7.9
Personal Income p. 21	bil. $	3263.6	4127.7	4453.8	4770.0
	% change	8.4	8.9	7.9	7.1
Prime Rate p. 25	%	10.0	8.4	9.2	10.0
	% change	-17.2	-8.6	9.4	8.1
Mortgage Rate p. 25	%	12.8	11.0	11.4	10.7
	% change	-7.4	-2.8	3.2	-6.1
Currency+demand deposits, p. 23	bil. $	591.6	694.8	735.8	769.7
	% change	8.6	7.0	5.9	4.6
Commercial+ind. loans, p. 23	bil. $	488.1	573.0	590.7	603.1
	% change	3.7	5.4	3.1	2.1

Numbers in "% change" rows show percent changes over the previous year.

0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged.

	Last Update
1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will level off; in 1987 it will go up to $28 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.	Oct. 1985
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1987 or 1988.	Oct. 1985
3. **A longer-lasting relaxation in monetary and credit policies** will start in the middle of 1986. It will continue in 1987 and through most of 1988.	Oct. 1985
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan. 1984
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.	Jan. 1984
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.	Feb. 1985
7. **No drastic changes in international relationships** are anticipated.	**Permanent Assumption**

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the November 1985 **KEDI** forecast. In 1985 and 1986 moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1990 do not point to recession or major downturn. Financial outlook is optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more acceptable level in 1986.

TABLE 1.11

SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem-ploy ment rate	Capacity util'n rate	Private housing starts	Auto sales
Unit	$72 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1984*	1639.3	121.8	7.52	80.8	1.749	10.4
1985:1*	1663.5	123.8	7.32	80.5	1.793	10.9
2*	1671.3	124.4	7.31	80.4	1.769	10.9
3	1684.8	124.5	7.21	80.1	1.641	10.6
4	1700.1	126.7	7.16	80.3	1.550	10.2
YEAR	1679.9	124.8	7.25	80.3	1.689	10.7
% change from '84	2.5	2.5	-3.59	-.6	-3.4	2.4
1986:1	1711.6	127.3	7.19	80.4	1.548	9.9
2	1723.9	128.6	7.02	80.9	1.673	10.4
3	1736.4	130.0	6.98	81.1	1.741	10.2
4	1750.5	132.0	7.01	81.3	1.659	10.5
YEAR	1730.6	129.5	7.05	80.9	1.654	10.2
% change from '85	3.0	3.7	-2.76	.7	-2.0	-3.8
1987:1	1767.4	134.2	7.08	81.7	1.743	10.4
2	1786.5	135.3	6.98	81.8	1.900	11.1
3	1807.1	137.9	6.86	82.5	1.967	11.1
4	1823.1	140.0	6.76	82.7	1.803	11.8
YEAR	1796.0	136.8	6.92	82.2	1.851	11.1
% change from '86	3.8	5.7	-1.84	1.5	11.9	8.3

*Historical data.
Note: Index of industrial production and Capacity utilization rate reflect recent revisions made by the Federal Reserve System.

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

See Tables 1.11 and 1.12
Pages 5 and 7.

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+ 5.08%	Net exports
- .07%	GNP
- .11%	Personal cons. expend.
- .12%	State local purchases
- .13%	Federal government purchases
- 1.69%	Gross private domestic investment

* **Real GNP up 3.3% in 1985:3.** Forecast for 1985:4 does not indicate as much growth. Third quarter surge was spurred by strong car sales which will decline in the closing quarter of this year.

* **KEDI** forecasts a strong US economy in 1986 with moderate growth continuing into following years.

* **Business Council** estimates too bleak in 2.1% growth in 1985 and 2.5% in 1986. They predict a deteriorating trade sector based on overvaluation of the dollar.

KEDI disagrees:

- Manufacturing stabilizing
- Agriculture with slow growth
- Service sector expanding
- Orders for durables will grow 5% in 1986 over 1985.
- Retail sales will increase 4% in 1986 over 1985.

* **Update from last month.** Improvement in foreign trade segment resulting from downward adjustments in international value of US dollar. Do not expect drastic declines in the international value of the dollar in 1986.

TABLE 1.12

REAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------* Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$72 bil.	$72 bil.	$72 bil.	$72 bil.	$72 bil.	$72 bil.
Year & Qtr.						
1984*	1639.3	1062.4	289.7	-5.0	122.5	179.6
1985:1*	1663.5	1089.1	292.1	-28.4	129.8	180.9
2*	1671.3	1102.0	289.5	-33.8	129.7	183.9
3	1684.8	1115.2	278.1	-34.0	139.4	186.1
4	1700.1	1121.4	285.4	-30.4	135.7	188.0
YEAR	1679.9	1106.9	286.3	-31.6	133.7	184.7
% change from '84	2.5	4.2	-1.2	533.0	9.1	2.9
1986:1	1711.6	1118.7	297.4	-27.8	133.5	189.8
2	1723.9	1124.1	300.7	-26.4	133.9	191.6
3	1736.4	1131.0	302.7	-25.7	135.2	193.2
4	1750.5	1131.6	309.6	-23.5	137.1	195.7
YEAR	1730.6	1126.3	302.6	-25.9	134.9	192.6
% change from '85	3.0	1.8	5.7	-18.3	1.0	4.2
1987:1	1767.4	1141.4	313.1	-24.1	138.9	198.1
2	1786.5	1149.0	320.0	-22.3	141.0	198.8
3	1807.1	1155.8	325.4	-19.1	143.1	201.9
4	1823.1	1159.1	331.1	-18.0	146.1	204.8
YEAR	1796.0	1151.3	322.4	-20.9	142.3	200.9
% change from '86	3.8	2.2	6.5	-19.2	5.4	4.3

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Table 1.21 - page 9

1986
FORECAST
DATA

Percent Change
from
October 1985
Forecast

+ .87%	State local purchases
+ .85%	Federal government purchases
.00%	Personal cons. expend.
- .52%	Consumer price index
- 1.67%	GNP
- 8.79%	Producer price index

* **Inflation keeps low profile.** Dormant for the time being, but certainly not dead. Watchful eyes are needed to keep inflationary pressures in check. Donald Straszheim, chief economist at Merrill Lynch Economics, believes that "inflation is dead in the water." As unpredictable as Humphrey the Whale, inflation needs constant watching and coaxing to keep it on course and out of troubled waters. **KEDI** forecasts upward inflationary pressures in 1986 growing stronger in 1987.

* **CPI will be on good behavior** for 2 years. 1987 will see upward pressure in CPI after decline in international value of the dollar tapers off. This will happen as wholesale increases push up retail prices.

* **Update from last month.** Do not look for further drops in Producer Price Index. Recent declines caused by autos price cutting which is winding down.

TABLE 1.21

PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967=100	1967=100	1972=100	1972=100	1972=100	1972=100
Year & Qtr.						
1984*	311.1	291.2	223.4	220.4	241.1	251.7
1985:1*	317.4	292.5	229.1	224.7	246.5	261.0
2*	321.2	293.7	230.6	226.2	250.7	264.7
3	323.7	295.9	231.8	226.5	248.9	268.1
4	325.4	298.1	233.0	226.3	251.8	271.3
YEAR	321.9	295.1	231.1	225.9	249.5	266.3
% change from '84	3.5	1.3	3.5	2.5	3.5	5.6
1986:1	327.9	300.5	235.1	230.0	253.9	273.0
2	329.7	306.4	237.4	232.8	255.4	276.1
3	333.2	310.8	240.5	258.7	279.8	276.6
4	336.6	315.8	242.0	238.8	260.1	283.9
YEAR	331.9	308.4	238.8	233.9	262.3	277.4
% change from '85	3.1	4.5	3.3	3.6	5.1	4.2
1987:1	340.5	318.9	244.7	240.8	262.5	285.2
2	345.7	322.4	247.3	244.2	265.4	288.7
3	351.2	328.5	250.1	248.0	268.7	291.4
4	355.7	336.0	253.2	251.3	272.8	295.6
YEAR	348.3	326.4	248.8	246.1	267.4	290.2
% change from '86	4.9	5.9	4.2	5.2	1.9	4.6

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 11

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+ 3.15%	Net Exports
+ .76%	Federal government purchases
+ .73%	State local purchases
- .07%	GNP
- .11%	Personal cons. expend.
- .67%	Gross private domestic investment

* **GNP composition to change** in the next two years.

- Slower Personal Consumption Expenditures resulting as consumers approach upper limits of short-term debt. Personal savings are suffering from recent spending sprees as low interest rates keep the urge to spend alive.

- Higher inventories. The lowest in the last decade, inventory/sales ratios will result in higher inventories as manufacturing is expected to replenish its stores.

- Decrease in foreign trade deficit will be slight in 1986 and more significant in 1987 as moderate growth decreases demand for imports. Exports will be up stimulated by international value of the dollar resulting in a lower trade deficit.

* **Update from last month.** Forecast data for nominal GNP reduced slightly from October because of lower forecast data for prices and price deflators.

TABLE 1.22

NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------* Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3662.2	2341.8	637.9	-64.2	295.3	452.1
1985:1*	3811.1	2446.7	646.8	-74.5	320.0	455.3
2*	3854.0	2493.0	643.2	-94.0	325.2	486.8
3	3905.4	2525.9	622.8	-89.2	347.0	498.9
4	3961.2	2537.9	655.8	-84.2	341.7	510.0
YEAR	3882.7	2548.0	642.1	-85.5	333.5	487.8
% change from '84	6.0	8.8	.7	33.1	12.9	7.9
1986:1	4024.0	2572.8	669.7	-75.6	339.0	518.2
2	4092.5	2617.5	676.2	-72.1	342.0	529.0
3	4176.0	2925.9	682.4	-67.8	378.3	534.4
4	4236.2	2702.2	688.1	-66.3	356.6	555.6
YEAR	4131.8	2721.4	679.1	-70.4	354.0	534.3
% change from '85	6.4	6.8	5.8	-17.6	6.1	9.5
1987:1	4324.8	2748.7	709.2	-62.7	364.6	565.0
2	4418.0	2805.9	718.5	-54.5	374.2	573.9
3	4519.6	2866.1	730.8	-50.2	384.5	588.3
4	4616.1	2913.3	751.2	-52.4	398.6	605.4
YEAR	4469.0	2938.7	727.4	-55.0	380.5	583.2
% change from '86	8.2	8.0	7.1	-22.0	7.5	9.1

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+	.43%	Unemployment rate
+	.01%	Population
	.00%	Agriculture
-	.59%	Civilian labor force
-	.60%	Total employed
-	.62%	Non-agric.

* **Labor Department figures for** September reflects 372,000 new jobs putting the total work force at a record 107.5 million.
* **Jobless rate edged up a tenth** of a point to 7.1% causing no reason for alarm as new jobs continue to increase.
* **Steady growth in new jobs** lead by the service sector, construction, health and business services.
* **Joblessness among blacks** continues to increase.
* **Adult males employed at an** unchanged rate.
* Manufacturing lost 111,000 jobs in September. Look for this to level off as the import-export gap narrows and domestic factories produce more.
* **Update from last month.** There is no need for panic in the 7.1% unemployment rate as real data reflects a steady increase in new jobs as changes in the labor force composition continues.

TABLE 1.30

EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	Employment			Unemployment rate
			Total	Agricult.	Non-agric.	
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	106.8	3.4	103.4	7.30
2*	240.9	115.2	106.8	3.4	103.4	7.31
3	242.3	115.3	107.0	3.4	103.6	7.21
4	243.7	115.7	107.4	3.4	104.0	7.16
YEAR	241.7	115.3	107.0	3.4	103.6	7.25
% change from '84	1.8	1.6	1.7	0.0	1.7	-3.59
1986:1	244.5	116.3	107.9	3.4	104.5	7.19
2	245.5	116.3	108.1	3.4	104.7	7.02
3	246.4	117.7	109.5	3.4	106.1	6.98
4	247.7	118.1	109.8	3.4	106.4	7.01
YEAR	246.0	117.1	108.8	3.4	105.4	7.05
% change from '85	1.8	1.5	1.6	0.0	1.6	-2.76
1987:1	248.6	119.0	110.6	3.4	107.2	7.08
2	249.3	118.7	110.4	3.4	107.0	6.98
3	250.4	120.3	112.0	3.4	108.6	6.86
4	252.3	121.2	113.0	3.4	109.6	6.76
YEAR	250.2	119.8	111.5	3.4	108.1	6.92
% change from '86	1.7	2.3	2.3	0.0	2.3	-1.84

*Historical data.

1.41 HOUSING

See Table 1.41 - page 15

1986 FORECAST DATA

Percent Change from October 1985 Forecast	
+ .56%	Multi-family housing starts
+ .39%	Permits authorized
+ .07%	1-Family unit price new
+ .03%	1-Family unit price existing
.00%	Single family housing starts
- 1.15%	Multi-family housing starts

* **Housing starts stop.**
Off 9.3% from September, October data reflects KEDIs forecast of many months that actual housing construction does not reflect demand but merely the optimistism of builders. Now it appears that builders have removed their rose colored glasses and realize that mortgage rates have to go up soon. Even the too-low mortgage rates prevalent this year has not created the desired buying boom anticipated by many builders.

* **KEDI HOUSING FORECAST:**
  1985 weaker than 1984
  1986 weaker than 1985
  1987 rebound

* **Changes from last month.**
Apartment housing starts down. KEDI has revised downward the forecast of Government subsidies in multi-family housing.

TABLE 1.41

HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home shipments	Permits authorized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1984*	1.084	.665	.298	1.679	97.0	87.0
1985:1*	1.121	.674	.291	1.709	98.5	87.3
2*	1.076	.693	.285	1.731	102.0	90.4
3	1.030	.611	.273	1.683	104.6	95.2
4	.961	.589	.269	1.484	104.9	95.3
YEAR	1.047	.642	.279	1.652	102.5	92.0
% change from '84	-3.4	-3.5	-6.2	-1.6	5.7	5.8
1986:1	.910	.638	.245	1.481	105.9	95.5
2	1.024	.649	.248	1.544	107.4	96.4
3	1.116	.625	.273	1.596	107.5	97.5
4	1.077	.582	.270	1.627	108.7	99.1
YEAR	1.031	.623	.259	1.562	107.4	97.1
% change from '85	-1.5	-2.8	-7.3	-5.4	4.8	5.5
1987:1	1.103	.640	.264	1.615	109.8	100.6
2	1.218	.674	.298	1.724	112.8	102.9
3	1.282	.685	.313	1.895	117.6	104.3
4	1.141	.662	.297	1.843	119.0	105.7
YEAR	1.186	.665	.293	1.769	114.8	103.4
% change from '86	15.0	6.7	13.1	13.3	6.9	6.4

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 17

1986 FORECAST DATA

Percent Change from October 1985 Forecast	
+ .97%	Factory shipments
+ .89%	Imports
.00%	Dealer car inventory
.00%	Total light truck sales
- .25%	Total car sales
- .68%	Car sales domestic

*** Auto sales drop as incentives expire in October.**

*** Japanese sales show sharp** gains in third week of October against declines for Detroits big three.

+	47.9%	Honda
+	44.8%	Volkswagen
+	1.4%	Chrysler
-	17.0%	GM
-	32.8%	Ford

Third week October sales, seasonally adjusted at 5.5 million, off from expected trend of 11 million. Seasonally adjusted rate had reached as high 14 million in the heat of the **rebate war.**

Detroit-watchers wonder how long before GM reinstates incentives to bolster sagging sales.

*** Changes from last month.** Slight increase in forecast data for sales of Japanese cars in 1986 and 1987. No change for light trucks.

TABLE 1.42

AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.5	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.8	8.3	3.5
3	10.6	7.9	2.7	1.2	8.2	3.3
4	10.2	7.6	2.6	1.6	7.7	3.4
YEAR	10.7	8.0	2.6	1.6	8.1	3.5
% change from '84	2.4	-7.0	9.4	14.3	1.6	5.3
1986:1	9.9	7.2	2.7	1.7	7.5	3.4
2	10.4	7.4	2.9	1.7	8.0	3.5
3	10.2	7.2	2.9	1.9	7.7	3.7
4	10.5	7.7	2.8	1.7	7.9	3.8
YEAR	10.2	7.4	2.8	1.7	7.8	3.6
% change from '85	-3.8	-11.4	7.6	6.2	-4.3	3.6
1987:1	10.4	7.6	2.8	1.7	7.9	3.5
2	11.1	8.1	3.0	1.9	8.3	3.7
3	11.1	8.0	3.1	1.8	8.1	3.9
4	11.8	8.9	2.9	1.8	8.4	4.0
YEAR	11.1	8.1	3.0	1.8	8.2	3.8
% change from '86	8.3	3.9	4.4	5.9	5.1	4.9

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 19

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+ .13%	Corp. profits tax accru.
- .15%	Surplus/ deficit
- .25%	State local income taxes
- .29%	Federal income taxes
- .65%	State local surplus/ deficit
- 2.36%	State local corp. tax accru.

* **Can the US afford a balanced federal budget?** **KEDI** agrees that the President should have to power to cut spending if Congress fails to meet budget reduction targets.

KEDI questions the wisdom in trying to bring the federal deficit to zero. What should be balanced is the entire government sector: federal + state and local budgets. With surpluses of $50 billion, state and local governments should reach the $80-100 billion range by 1991. If the federal deficit is at **zero** by 1991, the government sector will show a huge surplus approaching $100 billion. That situation may stimulate a **recession**, create **unemployment**, and **reduce** output. **KEDI** believes the best solution to the government deficit is to continue to shift more responsibilities back to the state houses, as Reagan is doing. This reduces the federal deficit and causes state and local governments to spend more. This policy deserves further serious consideration.

TABLE 1.50

FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	315.0	70.9	-175.7	120.3	19.1	53.0
1985:1*	362.2	67.4	-165.1	126.8	17.9	53.7
2*	318.3	66.1	-210.1	129.9	17.6	50.3
3	354.6	65.8	-201.0	132.0	18.8	52.3
4	362.3	70.4	-196.4	135.7	19.9	53.7
YEAR	349.4	67.4	-193.2	131.1	18.6	52.5
% change from '84	10.9	-4.9	9.9	9.0	-2.9	-.9
1986:1	375.1	74.8	-188.0	137.1	21.0	55.0
2	379.1	76.4	-182.9	139.0	21.4	55.9
3	384.7	80.4	-175.9	143.2	22.0	58.7
4	392.3	81.2	-175.3	148.5	22.3	59.3
YEAR	382.8	78.2	-180.5	141.9	21.7	57.2
% change from '85	9.6	16.0	-6.5	8.3	16.8	9.0
1987:1	402.3	82.7	-170.6	150.1	23.0	60.1
2	412.5	86.7	-167.2	152.6	23.9	62.7
3	420.4	88.9	-159.7	155.3	25.2	64.3
4	430.7	91.3	-150.4	158.2	26.0	67.6
YEAR	416.5	87.4	-162.0	154.1	24.5	63.7
% change from '86	8.8	11.8	-10.3	8.5	13.1	11.3

*Historical data.

1.60 INCOME

See Table 1.60 - page 21

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+	.41%	Corp. after tax profits
+	.06%	Comp. of empl.
+	.04%	Avg. weekly earnings
+	.01%	Personal disp. Income
-	.04%	Personal income
-	.44%	Personal saving

* **Average weekly earning** gains continue to outpace increases in the Consumer Price Index.

% change over 1985:

1986 CPI	3.1%
1986 Average weekly earnings	4.1%

This indicates that actual wages will continue growing faster than inflation. The Labor Department reports that Americans' average weekly earning, after adjusting for inflation, rose 0.7% in September, the biggest increase since April 1984. Unfortunately the gains stemmed from increases in wages and hours worked and not from increased productivity.

* **Corporate profits** turn in a good performance with forecasts showing healthy increases in 1986 and 1987.

* **Changes from last month.** 1985-87 forecast data for personal income and components remains steady with healthy gains ahead.

TABLE 1.60

INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3012.1	2576.9	2173.2	146.3	156.1	368.5
1985:1*	3133.3	2644.3	2272.7	137.0	118.6	374.6
2*	3170.3	2722.1	2305.9	137.4	139.4	378.5
3	3363.2	2876.6	2337.2	140.1	178.4	382.4
4	3387.8	2889.8	2363.5	147.8	140.5	386.3
YEAR	3263.6	2783.2	2319.8	140.6	144.2	380.4
% change from '84	8.4	8.0	6.7	-3.9	-7.6	3.2
1986:1	3401.0	2888.8	2404.9	151.2	149.7	389.5
2	3474.7	2956.6	2463.8	152.9	155.6	392.6
3	3712.9	3185.0	2410.7	161.7	153.2	397.8
4	3602.8	3062.0	2564.6	166.8	156.8	404.4
YEAR	3547.9	3023.1	2461.0	158.2	153.8	396.1
% change from '85	8.7	8.6	6.1	12.5	6.7	4.1
1987:1	3660.1	3107.7	2618.4	170.3	161.4	409.2
2	3745.3	3180.2	2660.1	173.1	164.6	413.7
3	3831.7	3256.0	2742.0	178.5	168.7	422.1
4	3924.5	3335.6	2810.1	185.2	170.2	426.0
YEAR	3790.4	3219.9	2707.7	176.8	166.2	417.8
% change from '86	6.8	6.5	10.0	11.8	8.1	5.5

*Historical data.

1.70 MONEY AND CREDIT

See Table 1.70 - page 23

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+	.45%	Large denom. time deposits
+	.41%	Consumer install. credit
+	.23%	Comm. & industrial loans at banks
+	.21%	Currency & demand deposits
+	.05%	Time deposit adjust.
+	.03%	Mortg. at S & L Assns.

* **International Group of Five** maintains commitment to bring down the dollar's value. A weakening of the dollar will eventually rectify the balance of trade between the US and the world.

* **M1 supply of money eases** downward in October after a continuous climb over the summer. Indications are that the October meeting of the Open Market Committee resulted in agreement to moderate the money growth.

* **Forecast of M1 and M2 money** supply for 1986 is based on assumption that the Fed will tighten the monetary policy. Money supply is growing dangerously fast and the pace cannot continue unchecked indefinitely.

* **Changes from last month.** No significant changes, however, watch for a slowdown in growth of consumer credit; moderate increases in bank loans, and very slow growth in mortgage debt.

TABLE 1.70

MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	470.7	416.8	555.3
1985:1*	568.1	2416.4	471.6	474.1	423.6	559.3
2*	582.6	2448.2	497.3	478.4	424.2	567.1
3	604.5	2510.9	505.7	483.2	428.1	576.6
4	611.2	2558.1	514.3	488.1	432.7	582.4
YEAR	591.6	2483.4	514.3	488.1	432.7	582.4
% change from '84	8.6	9.0	11.7	3.7	3.8	4.9
1986:1	615.9	2604.9	519.7	491.6	436.0	589.8
2	625.6	2658.7	533.4	496.2	442.5	590.3
3	631.5	2708.8	528.9	513.4	447.8	595.7
4	636.7	2790.5	535.6	515.8	451.3	607.4
YEAR	627.4	2690.7	535.6	515.8	451.3	607.4
% change from '85	6.1	8.3	4.1	5.7	4.3	4.3
1987:1	640.7	2842.8	542.2	520.3	452.7	611.5
2	646.1	2909.9	546.8	524.8	457.8	617.7
3	655.8	2965.3	553.9	530.9	462.6	626.3
4	661.9	3021.9	559.8	543.6	473.4	639.3
YEAR	651.1	2935.0	559.8	543.6	473.4	639.3
% change from '86	3.8	9.1	4.5	5.4	4.9	5.3

*Historical data.
s.a.: seasonally adjusted at annual rates.
n.s.a.: not seasonally adjusted.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+ 1.75%	Aaa corp. bond rate
+ .97%	20 yr. Govt. bonds yield
+ .74%	Prime rate
+ .61%	S & P's 500 avg
+ .08%	Conv. mortg. rate
- .17%	Treas. bills 3 mo. yield

* **The Fed appears poised to push** interest rates lower through the balance of this year and next.
* **KEDI** takes strong exception with this line of reasoning.
  - US interest rates are at parity with other industrialized nations.
  - Further declines in interest rates may seriously destabilize the international value of the dollar.
* **Changes from last month.** Data for interest rates and yields have been increased slightly. While **KEDI** disagrees with the Fed's policy of pushing interest rates lower, it is a fact of life we must deal with and forecast accordingly.

TABLE 1.80

INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.65	12.36	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	183.48
3	7.49	9.68	12.58	11.59	10.72	190.21
4	7.67	9.46	12.63	11.34	10.51	188.65
YEAR	7.71	9.97	12.81	11.66	10.95	184.91
% change from '84	-19.0	-17.2	-7.4	-7.9	-11.4	15.2
1986:1	7.82	9.50	12.60	11.19	10.73	187.56
2	7.57	9.59	12.45	11.08	10.46	185.82
3	7.38	9.48	11.84	10.97	10.14	188.76
4	7.46	9.43	11.51	10.31	10.23	189.34
YEAR	7.56	9.50	12.10	10.89	10.39	187.87
% change from '85	-2.0	-4.7	-5.6	-6.6	-5.1	1.6
1987:1	7.36	9.36	11.27	10.65	10.16	186.74
2	7.10	9.14	11.02	10.31	10.23	192.65
3	6.95	9.10	11.26	10.45	10.67	196.74
4	6.58	9.35	11.74	10.69	10.69	199.62
YEAR	7.00	9.24	11.32	10.53	10.44	193.94
% change from '86	-7.4	-2.8	-6.4	-3.3	.5	3.2

*Historical data.

2.00 THE KENT ECONOMIC FORECASTING SYSTEM

10.00 SCOPE OF ECONOMIC MODELS

Economic models built to forecast a national economy are evaluated by a set of criteria:

* Accuracy
* Forecast horizon
* Frequency of update
* Extent of data base
* Types of equations

MEASURES OF ECONOMIC ACTIVITY

The number of variables in each model provides the basis for determining the depth of detail that a model is capable of reaching. Logically, more variables results in a broader base of model-user data.

In **economic model language** variables are called **INDICATORS** or **MEASURES OF ECONOMIC ACTIVITY.** Such indicators or measures might be:

* Production
* Employment
* Price level
* Exports
* Money Supply
* Consumer Credit
* Gross National Product
* Capacity Utilization
* Housing Starts

Almost every civilized country in the world has an economic model. Records indicate that in post-World War II more than 8000 such models have been constructed. Today the United States has 20 recognized models of the US economy. The table on page 27 shows 12 selected US models whose performance is monitored by the Federal Reserve Bank of Boston. This table is taken from **New England Economic Review**, November/December 1985, pp. 5-8.

Summary Information on Forecasting Organizations Studied

Forecasting Orgn. (Abbreviated Title) contact for information	No. of Macroeconoic Variables Forecasted	Typical Forecast Horizon, Quarters	Frequency of Release per yr.	Data Forecast First Issued
1) American Statistical Assn & Nat'l Bureau of Economic Research Survey of regular forecasts, median, (ASA)	17	5	4	1968
2) Bureau of Economic Analysis, US Commerce Dept, (BEA)	about 900	10 to 12	8	1967
3) Charles R. Nelson Assoc., Inc, Benchmark forecast, (BMARK)	3	4	4	1976
4) Chase Econometrics, (Chase)	about 700	10 to 12	12	1970
5) Data Resources, Inc., (DRI)	about 1000	10 to 12	12	1969
6) Economic Forecasting Project, Georgia State University, (GSU)	300	8	12	1973
7) Kent Economic and Development Institute, (KEDI)	**1699**	**10**	**12**	**1974**
8) Manufacturers Hanover Trust, (MHT)	37	4 to 5	3	1970
9) Research Seminar in Quantitative Economics, University of Michigan, (RSQE)	about 100	8	9	1969
10) Townsend-Greenspan & Co., Inc., (TG)	about 1400	6 to 10	4	1965
11) University of California at LA, School of Business, (UCLA)	about 1000	8 to 12	4	1968
12) Wharton Econometrics Forecasting Assoc., Inc (WEFA)	about 1200	12	12	1963

Note: The Kent Model is recorded as having 1,699 variables forecasted. In the Table (see the heading) there are reported only so-called MACROECONOMIC VARIABLES. The actual number of forecasted variables in the Kent Model is **43,935**.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Residential Structures in 1984** has been selected for comparison. The actual figure is the May 1985 estimate of the U. S. Department of Commerce, **(Survey of Current** Business, May 1985, Table 1.1). Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Residential Structures, 1984, bil. $)
Actual figure: 153.9

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy %
Georgia State University, p. 21	11/83	142.7	-7.3
Manufacturers Hanover Trust Co, p. 23	11/9/83	148.2	-3.7
Research Seminar in Quantitative Economics, Univ.of Michigan, p.24	11/17/83	165.3	+7.4
UCLA Business Forecasting Project, p.26	12/83	151.8	-1.4
Citicorp Information Service, p. 27	12/1/83	156.3	+1.6
Metropolitan Life Insurance Co., p.28	12/1/83	152.0	-1.2
Fidelity Bank, p. 32	12/19/83	148.9	-3.2
Evans Economics, Inc., p. 34	12/22/83	145.5	-5.5
Data Resourses, Inc., p. 36	12/24/83	151.2	-1.8
Kent Economic and Development Institute, p. 39	**1/1/84**	**150.2**	**-2.4**
Lehman Bros, Kuhn Loeb, Inc., p. 40	1/5/85	149.5	-2.9
The Equitable Life Assurance Society, p. 42	1/9/84	155.3	+.9
Morgan Guaranty Trust Co of NY, p. 43	1/12/84	145.1	-5.7
Standard & Poor's Corp, p. 44	1/12/84	150.5	-2.2

4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin**, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production**, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 **Selected Indicators of Real Growth**	Gross national product, 1972 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 **Real GNP**	Gross national product, 1972 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 **Prices**	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 **Nominal GNP**	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 **Employment and Labor**	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal and State Budgets	**Federal govt:**Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt: Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36